

COUNCIL AGENDA: 3-29-05

ITEM: 5.2

## Memorandum

**TO:** HONORABLE MAYOR AND  
CITY COUNCIL

**FROM:** Jane Light

**SUBJECT:** SEE BELOW

**DATE:** March 17, 2005

Approved

Date

3.21.05

Council District: 3

**SUBJECT: AGREEMENTS WITH ESTRELLA FAMILY SERVICES AND SAN JOSE  
UNIFIED SCHOOL DISTRICT FOR OPERATION OF A SMART START  
CHILD CARE CENTER ON THE GARDNER ELEMENTARY SCHOOL  
CAMPUS**

### RECOMMENDATION

It is recommended that the City Council adopt a resolution authorizing the City Manager to negotiate and execute:

- a. A Second Amended Lease with San José Unified School District ("District") and Estrella Family Services ("Estrella") for a community facility located on the Gardner Elementary School site, that will add the City to the District's current Lease with Estrella covering the child care center, and which among other things provides for a payment to Estrella an amount not to exceed \$617,000 and the transfer title to the City of the existing community facility consisting of 5 modular buildings of approximately 6896 square feet ("Center") located at 611 Willis Street, San José, CA 95112 for a term ending June 30, 2019.
- b. A contract for Sale of Personal Property evidencing the transfer of title of the Center from Estrella Family Services to the City, in exchange for a payment of \$617,000;
- c. A Sublease of the Center with Estrella for a term ending June 30, 2019, pursuant to which Estrella Family Services will run recreational programs at the Center, and provide child care services meeting the Smart Start San José Program Quality Standards.

### BACKGROUND

The City has sought ways to provide needed services to City residents, including increasing the number of available, affordable and quality early care and education spaces in San José. Representatives from the San José Redevelopment Agency (Agency), San José Unified School

March 17, 2005

**Subject: Agreements with Estrella Family Services and San Jose Unified School District**

Page 2

District, Estrella and the City met to strategize possible uses for the facility on the Gardner Elementary School campus. In discussions, it was determined that there was also a need for recreational use beyond the Smart Start San José program operating hours.

To this end, the City's Library Department and the San José Redevelopment Agency have developed a Project Service Memorandum (PSM) that identifies Agency support of this project. Funds were appropriated for the project under the PSM at the March 1, 2005 Council meeting. At the same time, the Council made required determinations under state law for Agency funding of a public improvement.

### **ANALYSIS**

San José Unified School District and Estrella entered into a 5-year lease pursuant to which Estrella owns and operates the child care center on the Gardner Elementary School campus. The District constructed the Center as a part of a school expansion project on the District's Gardner Elementary School site. After extensive negotiations between City staff, Agency staff, the District and Estrella, all parties agreed that, given the use of Agency funds, the most viable avenue for funding would be the City's acquisition of the modular units, and subsequent use of the Center for child care and community recreational programs. The Contract for Sale of Personal Property will evidence transfer of title of the Center to the City, in exchange for the City's payment of \$617,000. As the title holder to the Center, the Second Amended Lease will add City to the District's current Lease with Estrella covering the Center. City will immediately sublease the Center to Estrella and Estrella will operate the Center.

The term of the Second Amended Lease extends the 5-year term of the original Lease, so that the Lease shall end on June 30, 2019. However, the Second Amended Lease provides that the District may terminate the lease for the District's convenience upon twelve (12) months' advance written notice, with different District obligations depending on the remaining term of the lease. If the District terminates on or before 10 years of the lease term, the District shall seek a suitable District owned site to relocate the Center and shall pay for relocation of the Center, or shall pay the lesser of (i) City's cost to relocate the Center to another comparable site, or (ii) repay the City's unamortized contribution of \$617,000 (amortized over 15 years). The District shall also be obligated to compensate Estrella for costs Estrella contributed to the construction of the Center over and above the City's contribution. If the District terminates after 10 years, the District shall pay the City the lesser of its relocation costs or the City's unamortized contribution, but is not obligated to pay Estrella's additional contribution to the project. The total project is estimated to cost approximately \$1.5 Million; the lease obligates Estrella Family Services to pay all other project costs above the \$617,000. The remaining approximately \$883,000 would be paid through a combination of Estrella Family Services' own equity and a loan from the Packard Foundation.

The Second Amended Lease will also provide that, so long as the sublease remains in effect, Estrella will be obligated to the District for all costs of operation, maintenance, payment of rent and similar property management issues related to the Center. The Second Amended Lease provides that the City may terminate its interest in the Second Amended Lease at any time upon 30 days notice and, if the sublease with Estrella is terminated due to Estrella's default, the City

HONORABLE MAYOR AND CITY COUNCIL

March 17, 2005

**Subject: Agreements with Estrella Family Services and San Jose Unified School District**

Page 3

and the District will meet to determine future operations of the Center, including seeking an outside party to operate the Center. If the City determines that it cannot or does not desire to take over operation the Center, the City may terminate its interest in the Second Amended and Restated Lease, and transfer title to the District.

The Sublease will require Estrella to provide recreational programs and child care services meeting Smart Start San José standards in the Center. If Estrella defaults prior to the 15-year term of the Sublease, Estrella shall be obligated to repay the City's unamortized portion of \$617,000 contribution (amortized over 15 years). Upon payment of such amount, the City shall transfer title of the Center to Estrella. If Estrella is not in default, the title to the Center will transfer to Estrella after the approximately 15-year sublease term ends.

The construction of the new Center resulted in improved facilities and an increase in Smart Start San José early education spaces in San José. The facility will be in operation five days a week, for at least 11 hours per day, and at least 249 days per year until June 30, 2019. The City will gain an additional 112 Smart Start San José early care and education quality slots.

#### **PUBLIC OUTREACH**

N/A

#### **COORDINATION**

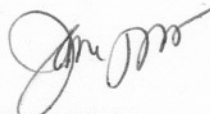
This memorandum has been coordinated with the PRNS, City Attorney's Office, San José Redevelopment Agency staff, and the Agency's General Counsel.

#### **COST IMPLICATIONS**

This project is funded through the San José Redevelopment Agency, PSM #400; approved and transferred the San José Public Library Department on March 1, 2005. Any funds or expenditures above the \$617,000 is the responsibility of Estrella Family Services.

#### **CEQA**

Exempt, PP#05-037



Jane Light  
Director, Library Department